



Practical | Tactical



Summary

Stocks weathered August well as stocks continued to climb a wall of worry. **September has a rough reputation, and we remain near-term cautious** within the context of a market that remains resilient. Please note that **we shifted to our current, relatively cautious posture prior to August, yet our portfolios enjoyed good participation in last month's gains.**

We expect the Fed to cut rates in September and will be interested in the market's reaction. Considering how far we've come off the April lows, rich valuations, a stubborn Fed and other nuances, **we would be surprised if markets made considerable further upside progress without some consolidation.** Noting a seasonally weak backdrop we also respect the potential for a pullback / correction (see definitions on page 3).

Key Market and Economic Data

- The S&P 500 (SPY) advanced +2.1% in August, while the Dow Jones Industrial Average (DIA) climbed +3.4%, and the Nasdaq 100 (QQQ) gained +1.0%.
- The Bloomberg U.S. Aggregate Bond Index posted a +1.2% gain in August. The 10-year Treasury yield concluded the month at a lower 4.2%. We continue to believe fair value is closer to 4.5%.
- International developed markets surged +4.5% in U.S. dollar terms for the MSCI EAFE index, while emerging markets rose +1.2%.
- Gold prices reached a new all-time peak of \$3,487 in August.
- The Consumer Price Index increased 2.7% year-over-year in July, matching economist projections. Labor reports included significant negative revisions prompting the White House to dismiss the head of the Bureau of Labor Statistics citing frequent substantial revisions.

What to Expect in Portfolios

Last month we wrote: "Considering very strong results since we moved tactically overweight stocks in April, **we decided to reduce equity exposure.** Being tactically underweight stocks may allow us to buy into potential weakness at the cost of marginally reduced future market participation (up or down)."

Prudent portfolio management balances the tradeoff between upside participation in rising markets and downside risk when stocks slide. We don't have a crystal ball but **decades of experience guides us to respect when returns have been better than expected and take profits.**

If that decision proves premature, we sacrifice potential bragging rights, which we believe is a fair price to pay for locking in solid results and retaining the firepower to buy cyclical pullbacks.

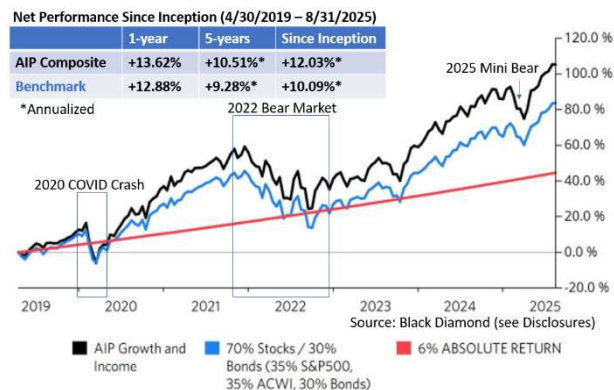
Contents

What to Expect in Portfolios	1
Current Conditions	2
Perspectives / Market Pulse	3
Closing Comments	4

August seemed volatile at times but was positive for both stocks and bonds. Tech/Growth leaders lagged as breadth improved, and foreign developed markets surged. The trailing year looks balanced and **future leadership trends remain unclear. A seasonal setback or further rotation away from Tech may present a buying opportunity into year-end.**

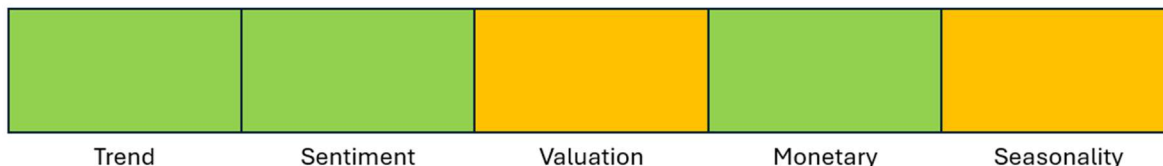


The chart below shows the net performance of our most popular composite since inception (120 accounts – see disclosures on page 4). The 6+ years shown have been volatile including COVID and the 2022 Bear market. **Our strategy and discipline led to greater participation in gains than declines, allowing us to add value through this volatile time.**



Insights and Commentary

Investing can be an emotional roller coaster, leading to costly mistakes. To navigate effectively as we seek greater participation in advances than declines, we have found it helpful to monitor a series of indicators and models based on 3 key tenants, (Don't Fight the Fed, Don't Fight the Trend, Follow Sentiment Except at Extremes) The tiles below summarize current conditions:



Our models and indicators continue to reflect a **cautiously optimistic outlook**. September (through mid-October) tends to be a seasonally weak time, especially when valuations are high and trends are overbought (like today). **This is widely known, which can create a self-fulfilling prophesy.**

Monetary conditions are modestly restrictive but expected to improve **as the Fed cuts rates** later this month. **It will be interesting to see if this is celebrated or investors instead decide to "sell the news".**

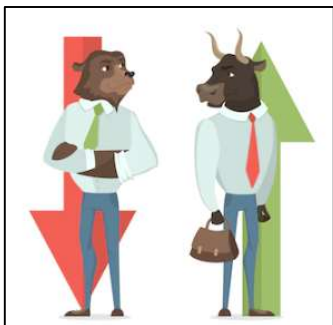
Sentiment continues to improve as stock investors prove more resilient than many expected. That said, we still see healthy skepticism and a mountain of cash in money market funds that should help limit pullback severity and **may fuel further upside into year-end.**

Trend strength persists. The reason our trend model is not fully bullish is based on overbought conditions and weak breadth (although breadth has been improving). Like seasonality, these issues raise risks when

Valuations are stretched. That said, these are not conditions that cause us much concern as mature bull markets get overbought and it is common to see persistent leadership from a narrow group of stocks.

In summary, **stocks have come a long way off the lows a few months ago.** Trees don't grow to the sky – and **we believe it is prudent to respect that risks are more balanced** than they were when fear was high and stocks were "on sale" prompting us to most tactically overweight. This is why we rebalanced to a neutral, and ultimately a mildly defensive allocation.

We continue to believe stocks will finish the year higher than current levels, but there are catalysts that could derail the rally, and the path forward is likely to be more volatile. **To mitigate these risks, we've tactically taken some profits, increased our cash/bond allocation and maintained our gold position.** We aren't betting against stocks and **stand to benefit from continued upside.** If **stocks pull back, we have the firepower to buy the dip.**



Update, Observations, Indicators and Outlook:

In terms of our current Market Pulse (right), **the Bull Market remains intact**. Until this changes, we tend to lean optimistically even when our actions seem relatively defensive. In other words, we will tend to be quicker to buy dips and slower to sell rallies. That said, **stocks are volatile, and it is common to see pullbacks and corrections of 5% to 10% multiple times per year** and more significant corrections (like this past April) every few years – **even in a bull (up-trending) market**.

We have found that if we have cash available to buy into these declines, that allows us to speed our recovery and add value through the full (up and down) cycle. To do this, **we have a process to tactically scale back exposure based on a range of indicators overlaid with judgement** derived from our experience managing portfolios through many different market cycles.

One reason **we rely on a “weight of the evidence” approach** – evaluating risk and return potential using a range of models from varied perspectives – is to help us manage periods when short-term and long-term indicators diverge. It is also helpful that **we have a broad range of tools we can use to manage risks and volatility** and tailor portfolios to align with the resources and preferences of our diverse client base.

Setting aside market analysis for a moment, we wanted to share a challenge that one of our clients and close friends is facing in the hope that others can reduce their risk under similar circumstances. **A high percentage of people over 70 get UTI infections** that can be difficult to detect because symptoms are limited to a loss of appetite, a feeling that something is off and potentially a sense of confusion. Too frequently undetected, this leads to sepsis, which is dangerous and shows symptoms impacting speech, memory and mental acuity. Bottom line, **early detection makes a big difference in terms of risk mitigation and the path to recovery**. Please stay alert and join us in wishing our client a full and speedy recovery.

On a lighter note, football season starts this week. We hope that brings you a fun distraction from life’s routine. If not, perhaps you look forward to fall weather, or maybe some late summer travel? **Whatever brings you joy, we wish you more of it.**

If you are looking forward to something fun, planning a project, or facing a challenge, please know we’re here to support you. 2025 is on a good pace and we are pleased to have benefited. We look forward to your feedback, questions and concerns and appreciate your continued confidence.

Market Pulse:

We try to avoid jargon, but a few terms are helpful when describing financial conditions.

Bull Market: markets trending up (making higher highs on rallies and higher lows in periods of decline). **We can expect periodic pullbacks and corrections, but these should be relatively short and shallow – followed by resumption of the up-trend.**

Consolidation: after a period of strong gains or steep declines sometimes markets become range bound, moving up and down by 3-5% over several weeks. After consolidation, the prior trend resumes.

Pullback: a decline of 3-5% that generally happens at least twice per year. Pullbacks often resolve within a few weeks.

Correction: a decline of 5% to 10% that typically happens once per year. Like pullbacks, markets recover quickly after corrections, generally within 3- 6 months.

Bear Market: a decline of 20% or more. Many bear markets are fully recovered within 18- 24 months, but severe bear markets like 2000-2003 and 2007-2009 can take 5-7 years or longer to recover from.

Bottoming Process: After a correction or bear market, stocks often bounce and re-test lows multiple times before recovery.

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Closing Comments:

Several clients have recently been speaking with friends who are looking to make a change either because they are nearing a life transition or have been unhappy with their current advisor.

We appreciate your referrals and are pleased that our company continues to enjoy steady growth. Our focus is always on providing exceptional service and performance and we are very grateful for your confidence and support!

Although our focus is on financial planning and investments, we also have relationships and resources to help with life and LTC insurance and annuities.

AIP acts as a 3(38) Fiduciary Advisor to 401k plans and has been able to help several small business owners reduce costs, significantly improve their plans and offload some of their liability as plan sponsors while creating a better experience for employees.

Please call and/or email me personally for most of your account servicing needs and especially when you have questions or concerns.

Disclosures

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